

The Structure and Characteristics of East Asian Bond Markets

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Two Questions

- 1. How much are Asian bond market activities integrated with global market activities?**
- 2. Why do we need a regional bond market?**

Reality Check of Regional Bond Market Activities (I)

Fact 1: Active Participation of Asian Investors in International Bond Issues

- 71 bonds (US\$41.2 billion) issued by Asian borrowers in April 1999-August 2002
- 44%-46% of these bonds were purchased by Asian investors' in the primary market offering

Source: BIS Study (2002)

Reality Check of Regional Bond Market Activities (II)

Fact 2: Active Participation of Asian Borrowers/Investors in Singapore Bond Markets

- **S\$3.22 Billion and US\$11 billion in S\$-bond and non-S\$ bond markets in 2002**
- **27% of Issuers in S\$ bond market and at least 40% of borrowers in non-S\$ bond markets are from Asia**

Source: MAS

Figure 1

New Issues of S\$ Bond by Foreign Entities

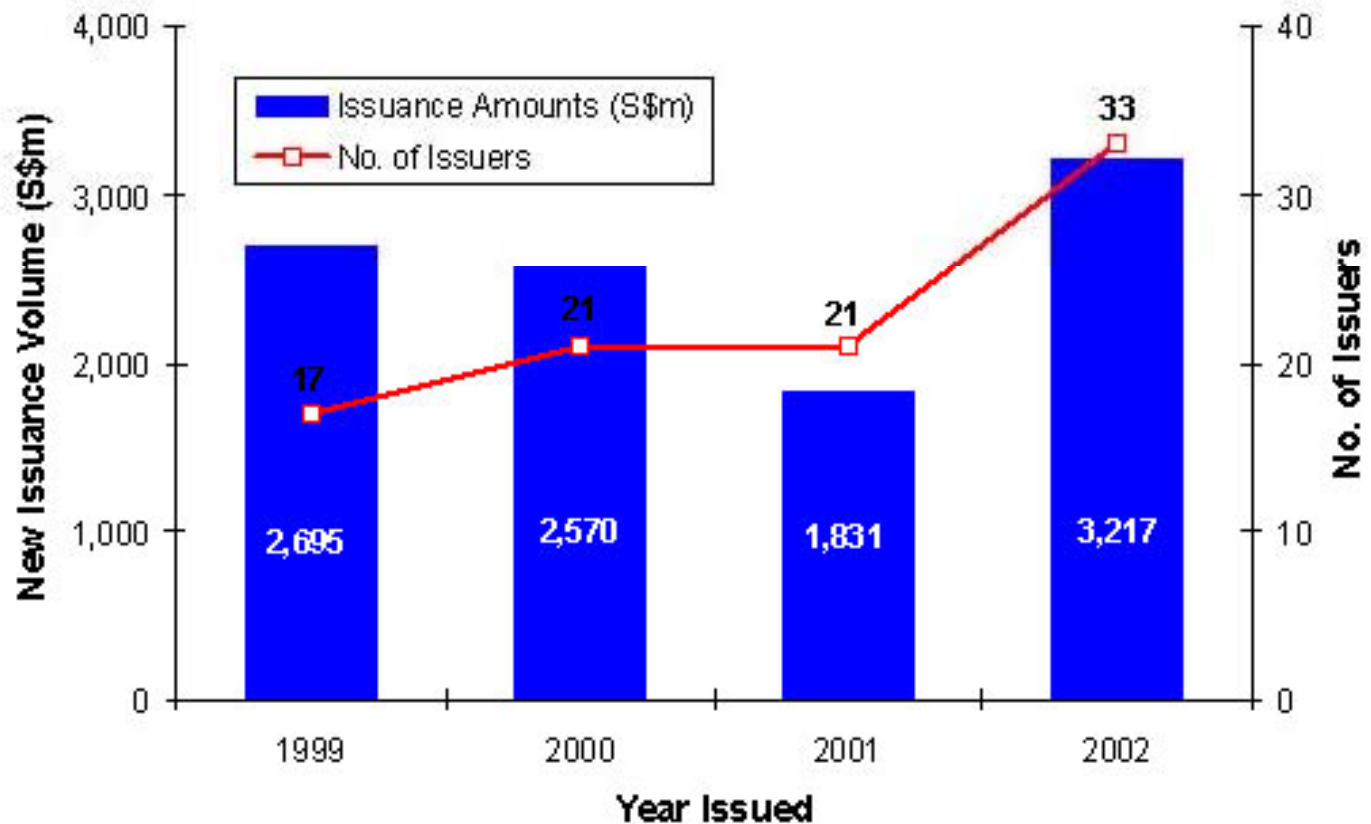


Figure 2 Geographical Distribution Foreign Issuers: S\$ Bond

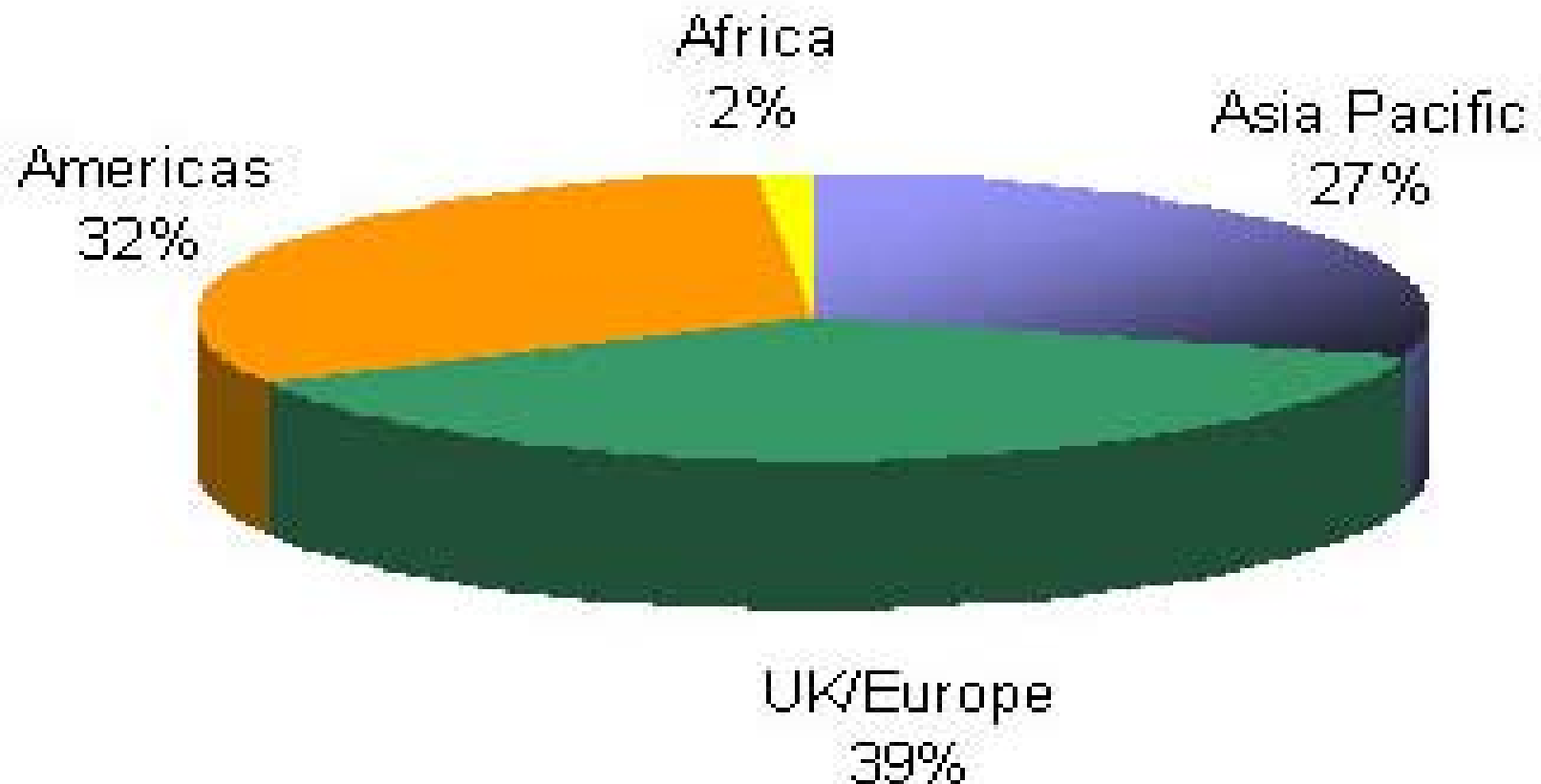


Figure 4

Non-\$\$ Bond Issuance

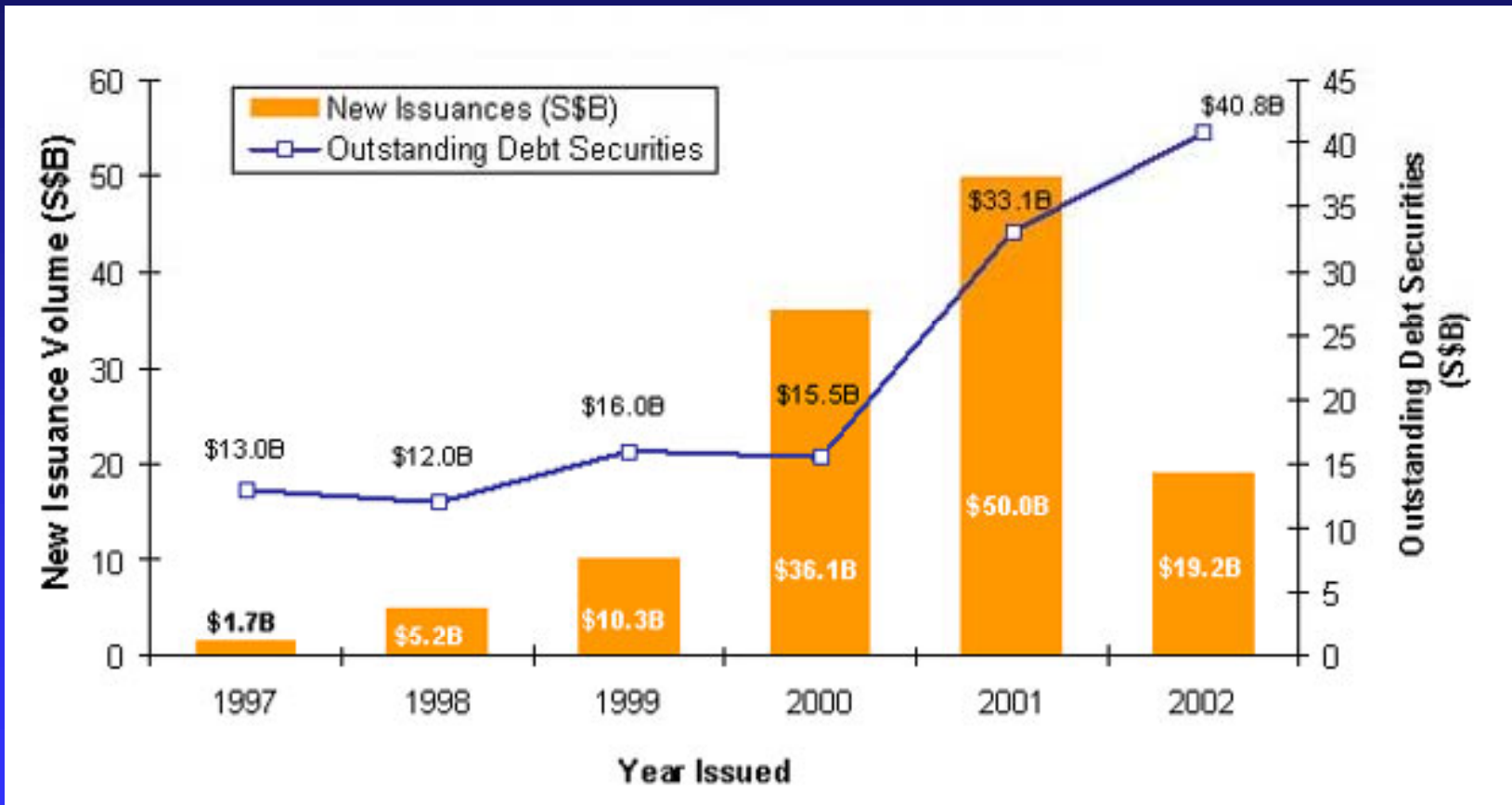
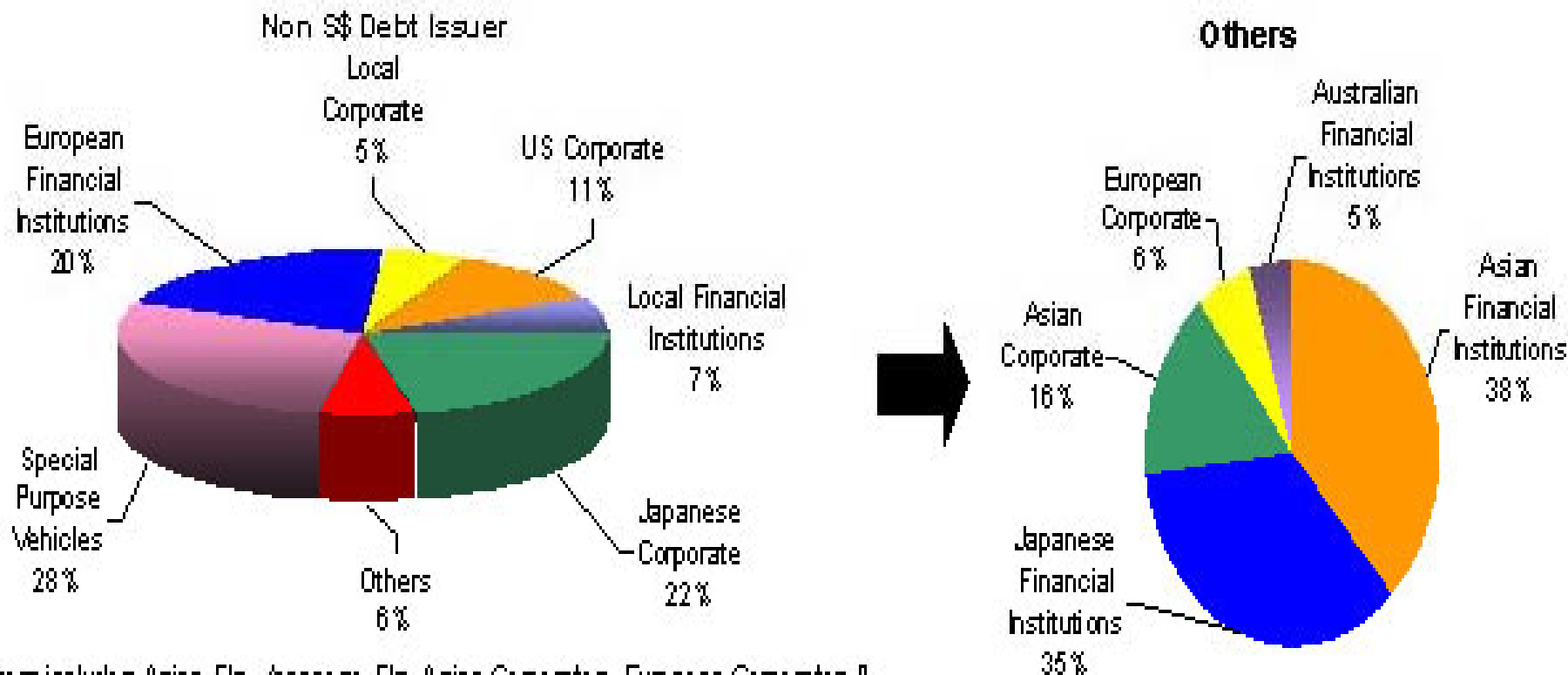
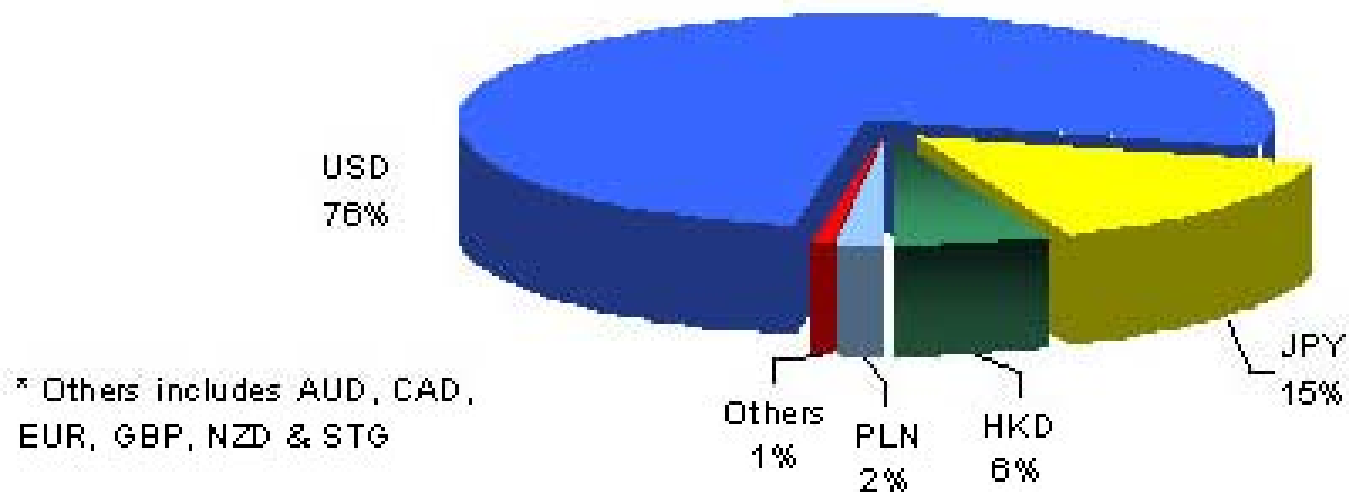


Figure 6 Types and Geographical Distribution of Non-S\$ Issuers



Others includes Asian FIs, Japanese FIs, Asian Corporates, European Corporates & Australian FIs

Figure 7 Currency Denomination of Non-S\$ Bond



Reality Check of Regional Bond Market Activities (III)

Fact 3: Active Participation of Asian Investment Banks in International Bond Issues

- **US\$53 billion bond issuance by Asian borrowers, 1991-2001**
- **1/3 of these issues: Asian Investment Banks**

Source: Park & Bae (2002)

Reality Check of Regional Bond Market Activities (IV)

Fact 3: Asian Bond Rating Agencies

- **Hong Kong and Singapore: Open to International Bond Rating Agencies**
- **All Other Asian Economies (including Indonesia, Japan, Korea, Malaysia, the Philippines, Taipei, China, and Thailand): Home-grown bond rating agencies**
- **Adoption of IAS Financial Statements by Most Asian Economies**

Regional Bond Rating Agencies

<u>Country</u>	<u>Number of Domestic Credit Rating Agencies</u>	<u>Adoption of IAS Statements by SEs</u>
Australia	Open to Global CRAs	Yes
China	none	No
Hong Kong SAR	Open to Global CRAs	Yes
Indonesia	2	No
Japan	3	Yes
Korea	3	Yes
Malaysia	2	Yes
Philippines	1	No
Singapore	Open to Global CRAs	Yes
Taipei, China	1	Yes
Thailand	2	Yes

Reality Check of Regional Bond Market Activities (V)

Fact 4: Inactive Japan's Samurai and Shogun Bond Markets

- **No Shogun Bond Issues since 1994**
- **Samurai Bond Issues:**
Only US\$5.3 billion in 2002

Gaisai Bond Issues

Unit: ¥ trillion

<u>Year</u>	<u>Number of Issues</u>	<u>Samurai Bonds</u>	<u>Number of Issues</u>	<u>Shogun Bonds</u>
1991	27	0.71	1	0.41
1992	37	1.57	0	0
1993	49	1.23	1	0.59
1994	60	1.26	0	0
1995	85	2.11	0	0
1996	154	3.79	0	0
1997	66	1.58	0	0
1998	10	0.15	0	0
1999	24	0.87	0	0
2000	63	2.38	0	0
2001	47	1.55	0	0
2002	29	0.64	0	0

Source: Japan Securities Dealers Association

Reality Check of Regional Bond Market Activities (VI)

Fact 5: Dragon Bonds Issued by Multilateral Financial Institutions

- **No Liquidity on the Secondary Market**
- **Very Little Contribution to Bond Market Development**

Reality Check: Foreign Holdings of US Treasury Securities (VII)

Unit: US \$ billion

Economy	March 2003	December 2002	December 2001
Japan	386.6	364.7	317.9
China	117.7	102.9	78.6
Hong Kong SAR	49.8	48.1	47.7
Korea	41.8	43.1	32.8
Taipei,China	34.5	34.5	35.3
Singapore	18.5	17.8	20.0
Thailand	13.3	16.3	15.7
Total (Asia)	662.2	627.6	521.3
Total (Foreign)	1,242.5	1,204.5	1,040.1

Source: Department of the Treasury/Federal Reserve Board
[Http://www.ustreas.gov/tic/mfh.txt](http://www.ustreas.gov/tic/mfh.txt)

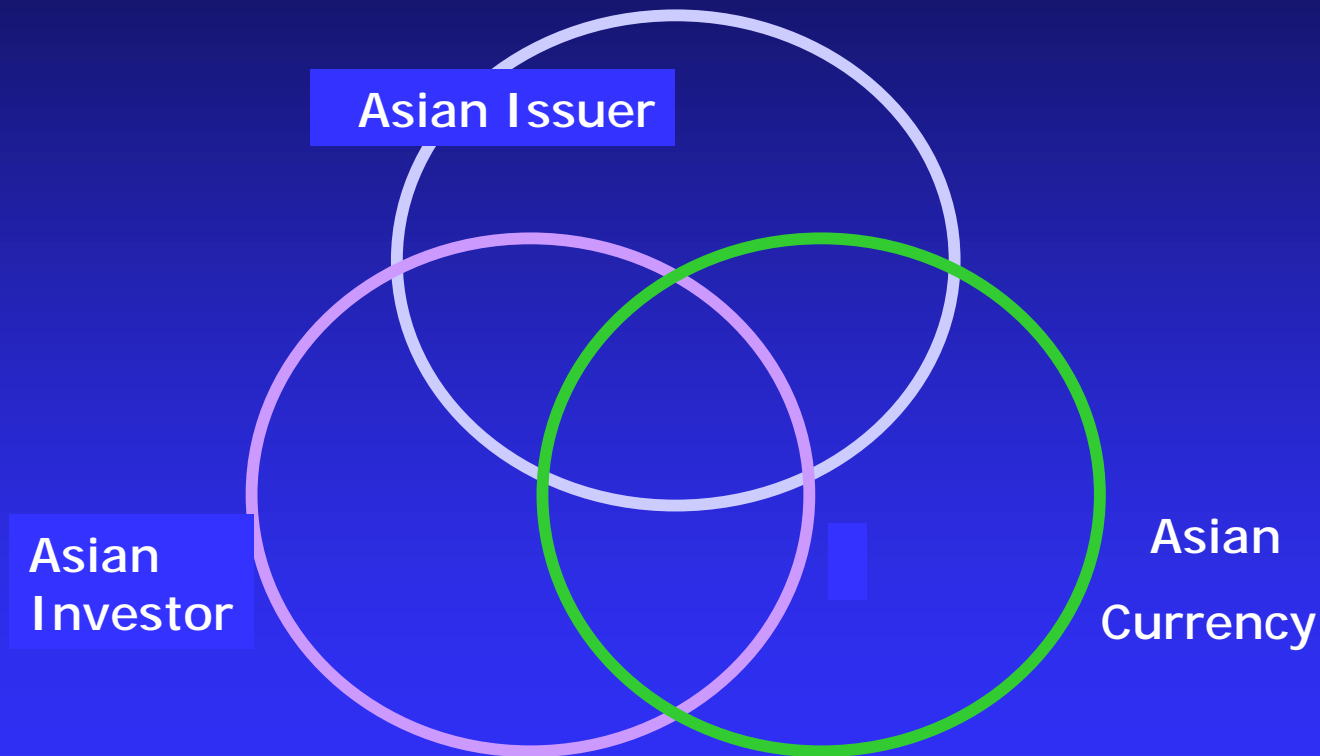
Reality Check of Regional Bond Market Activities: Conclusions

1. **Regional and global bond market activities are more integrated than normally perceived**
2. **Asian borrowers rely on US and European investment banks to tap international financial markets**
3. **At least 40% of these bonds end up in Asian Portfolios**

Why Do We Need a Regional Bond Market?

Figure 1

Regional Bond Market



Do We Really Need an “Asia Only” Market?

Two Major Concerns

1. Strong Sense of Regionalism

Bonds rated by Asian rating agencies

**Bonds issued by Asian borrowers and purchased
by Asian investors**

Bonds traded, cleared, and settled in Asia

2. Strong Emphasis on the Public Sector's Role

As long as Asian borrowers

issue bonds **at a minimum cost** and the majority of these bonds are purchased by Asian investors, does it matter?

1. Where these bonds are issued
2. Who rates these bonds
3. Who serves as lead managers
4. Where these bonds are traded
5. Where they are cleared and settled

Extreme Regionalism can be costly and counterproductive

Does It Make Sense?

For the Public Sector to Spearhead:

1. Creation of a regional bond rating agency
2. Creation of a regional clearing and settlement system
3. Creation of a regional trading system

How Do We Coordinate Roles of Public and Private Sectors?

Regional Bond Markets Are Justified for Two Reasons

- 1. Asian Common Currency**
- 2. Credit Enhancements for Region's Borrowers**

Asian Common Currency

- **Lessons from EU: Major Benefit of the Euro for Europe's Bond Markets**
 - i. **Elimination of Exchange Risk**
 - ii. **Harmonization of Market Practices**
 - iii. **Re-denomination of European Government Bonds in Euro....** A bigger, deeper, more liquid, and more homogeneous European bond market
- **Full or Partial Currency Unification in the Region**

Coordinated Monetary and Fiscal Policies?

Sovereign Credit Rating

(June 2003)

Economy	Local Currency	Foreign Currency
China	---	BBB
Hong Kong SAR	AA-	A+
India	BB+	BBB
Indonesia	BB+	B-
Korea	A+	A-
Malaysia	A+	BBB+
Mongolia	B	B
Philippines	BBB	BB
Singapore	AAA	AAA
Taipei, China	AA-	AA-
Thailand	A-	BBB
Vietnam	BB	BB

Source: Standard & Poor's

Recent Developments (I): **Asian Bond Fund**

11 Members of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP)

- a. ABF with an initial size of US\$1 billion**
- b. Invest in US dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers**
- c. BIS: Manager**

Recent Developments (II): Asian Basket Currency Bonds

1. ABC Bond Corporation:

A Depository for local currency government bonds (corporate bonds later) pledged by participating countries

2. ABC Bonds Issued in Units of Asian Basket Currency

3. Supported by Japan and Thailand China?

Credit Enhancements: **Asian Bond Bank (I)**

**Modeled After the Municipal Bond
Banks in Canada and the United
States**

Successful Examples:

- a. Bond Bank of Alaska**
- b. Municipal Finance Authority of
British Columbia**

Credit Enhancements: Asian Bond Bank (II)

Major Benefits of ABB

1. ***“Credit rating arbitrage”***: ABB re-lends funds raised at its higher credit rating to participating Asian borrowers
2. **Economies of Scale in borrowing cost**
3. **Greater liquidity with larger size bond issues**

Credit Enhancements: Asian Bond Bank (III)

A. Internal Enhancements

- a. Cash Reserves**
- b. Structured Bond Issue:
Collateralized Bond Obligations**
- c. Sinking Funds**

Credit Enhancements: Asian Bond Bank (IV)

B. External Enhancement

- i. **Third-party Guarantees:**
Multilateral Financial Institutions
- ii. **Letters of Credit:**
Commercial Banks
- iii. **Bond Insurance:**
Monoline Municipal Bond Insurers

Major Homework To Do

**Currency Risk Hedging
from ABB's Standpoint
w/o affecting local currency
values and domestic interest
rates**

Thank You!

